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PUBLIC FINANCE IN THE PHILIPPINES: A REVIEW OF THE LITERATURE

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ABSTRACT

It is the objective of this paper to take the initial step in bridging the gap between public finance and policy making in the Philippines by reviewing the existing literature on this subject. For purposes of the paper the field of public finance was divided into four areas: (1) taxation, (2) government expenditures, (3) the budget process and (4) public debt. A historical perspective of each of these sub-topics is presented. In addition, the various research and policy issues related to each of the said sub-topics are discussed and synthesized. Among others, these issues include: (1) the tax effort, (2) allocative effects of taxation, (3) taxation and inflation, (4) fiscal incidence, (5) the budget process and economic development and (6) the optimal level of debt.

The paper observes that taxation attracted the greatest amount of interest and work effort in the area of public finance while the budget process and public debt are the least explored topics. The paper also notes that the bulk of the research work was conducted in the period of the sixties. In the 1970s interest in the field appeared to be on the wane.

Chapter 1
INTRODUCTION

The area of public finance is one of special interest to policy makers primarily because of the obvious relationship between public finance and fiscal policy. Fiscal policy is, of course, one of the two major policy instruments (the other is monetary policy) available to the government in its effort to influence the various economic agents to act in the direction it deems most conducive to economic development. If fiscal policy is to be effective, it is imperative that policy makers have a firm grasp and a better understanding of the various issues on public finance.

It is the purpose of this paper to take a first step in bridging this gap by reviewing the existing literature in the field of public finance in the Philippines.[1] For purposes of organization, the said area is divided into four main headings: (1) taxation, (2) government expenditure, (3) the budget process and (4) public debt. A chapter is devoted to each of these major topics. Each chapter is broken down into two parts. The first part contains a historical perspective of the main heading while the second part is devoted to a discussion of the various issues related to the main heading as gleaned from the existing works in the field. The last chapter of this paper presents a summary of the other chapters as well as a discussion of the research gaps in public finance.

[1] This paper does not pretend to be exhaustive and the author wishes to apologize to the various authors whose works have not been included in this survey.

Chapter 2

Taxation

2.1 Evolution and the Present Structure of Philippine Taxes

In this section we will take a look at developments in the Philippine tax scene over time. In particular, changes through the years and the existing structure and characteristics of the various tax categories will be considered.

2.1.1 Direct Taxes

Direct taxes are taxes that are imposed directly on the taxpayer. The burden of these taxes are not in general passed on to others. They are levied based on the ability-to-pay principle. Direct taxes may fall into the following categories: (1) personal income tax, (2) corporate income tax, (3) transfer taxes and (4) others.

2.1.1.1 The Personal Income Tax

All citizens of the Philippines, whether residing in the country or not, with gross annual income of at least P1,800 are subject to the personal income tax. Resident citizens are taxed at steeply progressive rates based on their taxable net income derived from sources within the Philippines and abroad. The present rate structure starts with a 3 per cent tax rate on taxable income less than P2,000 and rises through a total of 37 steps to a maximum of 70 per cent on taxable income over P500,000

(Refer to Table 1). Said rate structure has been in effect since 1968. Prior to 1968, a slightly simpler structure of 23 graduated rates ranging from 3 per cent to 60 per cent prevailed. From 1950 to 1959, the rate on the first income bracket was 5 per cent.

Non-resident citizens are taxed at the same rate on their taxable net income obtained from Philippine sources and at a simpler and lower rate structure on adjusted gross income from abroad. The rates on foreign income from resident citizens are as follows:

Not over $6, 000	1%
Over $6,000 but not over $20,000	2%
Over $20,000	3%

Resident aliens are taxed on the basis of their taxable net income obtained from both Philippine and foreign sources at the same rate structure applicable to resident citizens. Non-resident aliens are classified into two for income tax purposes: (1) those who are engaged in trade or business, and (2) those who are not. The former are taxed based on their Philippine-source net income at the same rates applicable to resident citizens and resident aliens. The latter are taxed at a flat rate of 30 per cent of gross income derived from sources within the Philippines.

Net taxable income includes all items of income (e.g. salaries, wages, commissions, interest earnings, dividends, business or trade income, royalties, capital gains, etc.) net of allowable deductions and exemptions. Among otheres, allowable deductions include the following: (1) medical expenses not exceeding P500 each for the taxpayer, his spouse and each dependent up to a maximum of P2,000 in total; (2) basic tuition fees of taxpayer's highschool-aged dependents up to P250 for each and P1,000 in total; (3) expenses incurred in the operation of business or in the practice of profession; (4) interest payment; (5) losses sustained during the taxable years; (6) allowance for depreciation of property; (7) charitable contributions up to a maximum of 6 per cent of net income; and (8) 10 per cent of the gross income of a working wife but not exceeding P500.

In addition to these deductions, single individuals are allowed P3,000 (P1,800 prior to 1980) as exemptions while married individuals or heads of family are entitled to P6,000 or P4,500 (P3,000 before 1980) exemptions, respectively plus P2,000 for each dependent. The total number for dependents for which exemptions may be claimed is limited to four. These exemptions represent the minimum sum required for subsistence.

2.1.1.2 The Corporate Income Tax

At present, the Philippines has a dual rate system of corporate income taxation. This systems was first introduced in 1959, but over the years the rates have been increased. Since 1968 the rates have remained at the same levels; a basic rate of 25 per cent (previously 22 per cent) on the first P100,000 of the net income and 35 per cent (previously 30 per cent) of the excess over this amount.

Domestic corporations are taxed at the dual rate system described above on the basis of net income from Philippine as well as from foreign source. Resident foreign corporations are taxed at the same rates based on net income from sources within the Philippines while non-resident foreign corporations are taxed at a flat rate of 35 per cent of gross income derived from Philippine sources.

In addition, a 10 per cent (5 per cent prior to 1980) tax called the development tax is imposed on the appropriate bases for (1) domestic corporations with net income in excess of 10 per cent of net worth; (2) resident foreign corporations with net income in excess of 10 per cent of net assets in the Philippines; and (3) closely held corporations.

Several classes of corporate enterprises receive special treatment. Building and loan associations are taxed at a rate of

12 per cent of net income while private educational institutions pay a tax of 10 per cent of net income. Prior to 1973, most educational institutions were exempted from the corporate income tax. Likewise, domestic life insurance companies are taxed at the lower rate of 8.75 per cent of net investment income or at the regular corporate tax rates, whichever yields the higher tax.

2.1.1.3 Transfer Taxes

Transfer taxes in the Philippines are of two kinds: (1) the gift tax and (2) the estate tax. They are usually imposed on a means of achieving redistribution of wealth for equity objectives.

2.1.1.3.1 The Gift Tax

The gift tax is imposed on the right to transfer property during the lifetime of the transferrer. It is levied on the donor of real or personal property, on the basis of the net taxable gift appraised at its fair market value at the time of the gift, if made in form of personal property, or in accordance with the valuation of local assessors, if made in the form of real property, The net taxable gift is estimated as the aggregate of gross gifts less exemptions made during a particular calendar year. The gross gift consist of all valid transfers of property from one person to another. The exemptions include: (1) gifts

made to the children of the donor on account of marriage up to a maximum of P10,000 for each child; (2) donation to charitable, religious, cultural and social organizations and institutions; and (3) gifts valued at less than P1,000.

Since 1973 net taxable gifts are taxed at a graduated rate schedule of 15 steps ranging from 1.5 per cent for net gifts between P1,000 and P50,000 to 40 per cent for net gifts over P3,000,000 (Refer to Table 2). In 1980, an additional clause has been included in the legislation which provides that if the beneficiary is a stranger the tax payable by the donor shall be either the amount computed in accordance with Table 2 or 20 per cent of the net gifts, whichever is higher. A stranger is a person who is not a brother, sister, spouse, ancestor and lineal descendant or a relative by consanguinity within the fourth degree of relationship. Before 1972, the gift tax is imposed on both donors and donees but at different rate schedules. The donor's tax rate ranged from 1 per cent of gifts between P5,000 and p12,000 to 15 per cent of transfers over P1,000,000 over 10 taxable brackets. On the other hand, the donee's tax rats ranged from 3 per cent of gifts less than P12,000 to 22 per cent of gifts over P1,000,000 over 10 taxable brackets. With the issuance of PD 69 in 1972, the gift tax on the beneficiary was abolished.

2.1.1.3.2 The Estate Tax

The estate tax is imposed on the right of an individual (the decedent) to transfer property at death. It is levied on the net estate of a decedent appraised at its fair market value at the time of his death. Net estate is equal to gross estate less allowable deductions and exemptions. The press estate includes all items of property of the decedent (personal or real) at the time of his death. Among others, the list of allowable deductions include: (1) funeral expenses; (2) judicial expenses in the administration of the estate; (3) decedent's debt; (4) income and real estate taxes incurred during the decedent's lifetime; and (5) transfers for public purposes.

At present, the net estate is taxed at rates ranging from 3 per cent of net estate between P10,000 and P50,000 to 60 per cent of net estate over P3,000,000 over 15 taxable bracket (Refer to Table 3). Before 1972, the rate structure was less progressive with a rate of 1 per cent of net estate between P5,000 and p12,000 and 15 per cent of net estate in excess of P1,000,000 and 10 steps in between. Also, before 1972, an inheritance tax paid by the beneficiaries) existed hand in hand with the estate tax.

2.1.2 Indirect taxes

Indirect taxes are those levied on the production and sales of goods and services. The major indirect taxes are: (1) the sales tax, (2) the specific tax, (3) the export tax and (4) the import duty.

2.1.2.1 The Sales Tax

The sales tax is imposed on all goods and exchanged in the country, whether domestically produced or imported, other than those subject to the specific tax or excise duties, those subject to the miller's tax, exports and imports for the use of the armed forces.

Tax rates vary according to the "essentiality" and origin of the commodities on which they are levied. Non-essentials and semi-essentials articles are taxed at 50 and 25 per cent, respectively. Ordinary commodities are subject to a 10 per cent tax rate while essentials are taxed at 5 per cent. This four-pronged structure is further complicated by the imposition of lower rates on the locally manufactured versions of certain goods relative to their imported counterparts. For instance, certain locally produced semi-essentials like refrigerators, freezers, television sets, phonographs, tape recorders, etc. are subject to a graduated rate structure (with the tax rates varying according to the given commodity's gross selling price and ranging from 10 to 25 per cent) while the imported variety of

these same goods are taxed at the flat rate of 25 per cent. Likewise, locally manufactured automobiles are taxed at rates varying from 10 to 70 per cent while imported automobiles are taxed at rates ranging from 100 to 200 per cent depending on the price of the automobile. In the same manner, locally manufactured medicine, laundry soaps and detergents, processed meat, milk, fish and other seafoods, writing pads, notebooks and lead pencils are subject to the 5 per cent tax on essentials while their imported counterparts are levied the ordinary rate of 10 per cent. In addition, agricultural products produced locally are taxed at 1 percent while the imported kinds are taxed at 10 per cent.

The base of the sales tax on domestic manufactures is the gross value in money of said commodities. A tax credit for all sales, specific and mining taxes paid on raw materials, parts and accessories forming part of the finished product is granted to all establishments. On the other hand, imports are taxed on the basis of the home consumption value of the given commodity plus 10 per cent thereof plus customs duty plus a mark-up of 25, 50 and 100 per cent on agricultural products, essential and ordinary articles, semi-essential articles, and non-essential articles, respectively. Imports for personal use, however, are charged a compensating tax at the same rate as the sales tax but without the mark-up.

It should be noted that higher effective rates are charged on the imported than on the locally manufactured variety of any given commodity with even higher effective rates on imported non-essential commodities. This provides an additional element of protection over and above tariffs by discriminating against imports in the domestic market.

Table 4 gives a summary of the sales tax structure which has been in effect since 1978.

From 1969 to 1977 processed food, ordinary semi-essential and essential articles are taxed at 5, 7, 40 and 70 per cent, respectively, based on the gross selling price less the cost of raw materials previously taxed at the same rate as the finished product. The classification of commodities under these categories was somewhat different from the existing system being less reflective of the essensiality principle.

2.1.2.2 Specific Tax

The principal specific taxes in the Philippines are those on tobacco, alcoholic beverages, gasoline and oil. Excise duties are imposed on both imports and domestic production, with higher rates for imports.

Table 5 provides a summary of prevailing specific taxes in the country.

2.1.2.3 Export Tax

Initially, the export tax was imposed in May, 1970 in the form of a stabilization tax, the main purpose of which was to sop up some of the windfall gains accruing to exporters as a result of the currency devaluation in 1970. As originally planned the stabilization tax rates were scheduled to decrease annually from initial levels of 10 and 8 per cent to zero in 1974. However, in July 1973, the temporary stabilization tax was replaced by a permanent export tax.

The export tax is levied on exports of mineral, wood, coconut, sugar and other products on the basis of the gross F.O.B. value at the time of the shipment. Table 6 gives a picture of the export tax rates in the Philippines.

2.1.2.4 Import tax

The Tariff and Customs code promulgated in 1957 governs the taxation of imports in the Philippines. Initially, its rate schedule consisted of 34 different levels ranging from 0 to 250 per cent, making the Code highly complicated and unwieldy in terms of administration. This resulted in rampant smuggling, misdeclaration, undervaluation and misclassification. In 1972, the Tariff and Customs Code was

overhauled when Presidential Decree 34 took effect. The rate structure was simplified; only six levels were instituted: 10, 20, 30, 50, 70 and 100 per cent. The decree also reduced the number of commodity cateories qualified of certification papers from 16 to 14.

In 1980, the peak rates of 70 and 100 per cent were reduced further to 50 per cent under P.D. 1464 Executive Order No. 609.

2.1.3 Tax Incentives

Legislation providing incentives to the development domestic industries is not new in the Philippines. Since the termination of U.S. sovereignty in 1946, various tax incentive laws have been enacted as part of the government's industrialization scheme.

The first suchlaw passed in the postwar period was RA 35 which granted "new and necessary" industries exemptions from certain internal revenue taxes for a period of four years from the date of organization of the industry.[2] Initially, "new and necessary" was rather broadly defined. However, during the early 50's the term 'necessary industry" was delimited to mean an industry which would have an imported material content of at most 50 per cent of the gross

[2] Include were the residence tax, the fixed privilee tax on business, advance sales tax on imported materials, real estate tax, the income tax and the sales tax.

value of output and which could operate on a commercially profitable scale after exemption.

RA 901 passed in 1953 supplanted RA35 and broadened the tax exemptions from customs duties. Also tax privileges were extended from four to six years with a four-year transition period, during which the proportion of taxes to be exempted decline gradually to zero. Under this Act, a new industry was 'one not existing or operating on a commercial scale prior to January 1, 1945'. A 'necessary' industry was taken to refer to one (a) that contributed to the attainment of a stable and balanced economy, (b) that could operate on a commercial scale, (c) that did not require imported material inputs greater than 60 per cent of the gross value of output.[3] Among those industries, which were actually granted exemptions, food industries, basic metal products, textiles, chemicals and electrical machineries ranked high in the number of product lines exempted.

In 1961, the Basic Industries Law (RA 3127) was passed. It provided for diminishing tax exemptions on importations of machinery, equipment and spare parts made by 'basic" industries until December 1970. Eighteen industries were explicitly classified as basic. Later RA 4093 amended the above by deleting 12 industries and adding ten more.

[3] Included were the following: iron and steel products, processed local fuels, chemicals, copper and alloy products, refractors, processed foods, textile and fiber manufactured from local raw materials, fertilizers, agricultural equipment, refrigerator and airconditioning, machinery, porcelain products, raw plastic materials, paper and paper products, medicinal and pharmaceutical products, rubber manufactures, electrical motors, office and school equipment and supplies, household and kitchen utensils, industrial abrasives and others which could be manufactured from by-products and wastes of local agricultural materials.

The Investment Incentives Act (RA 5186) of 1967 is generally considered as the single most important incentive legislation passed in the Philippines. This created the Board of Investments to administer the act. It grants a wide range of fiscal and other benefits to firms investing in priority industrial sectors and registered with the BOI. Investments may be registered under two classifications: "pioneer" or "preferred". "Pioneer" enterprises are those which introduce new products or new processes to the Philippines. "Preferred " areas of investment are those in which existing capacity are deemed to fall short of domestic market demand and estimated export potential.

The Export Incentives Act (RA 6135) was passed in 1970 in order to accelerate the export promotion drive of the country. As a complementary measure to the Investment Incentives Act, it has replaced and liberalized the export incentives granted in the former by extending various incentives to all exporters of manufactured export products registered with the BOI. As a prerequisite to registration, the product must be listed as an export product in the Export Priorities Plan; or if such product is not listed in the Plan, at least 50 per cent of its sale must qualify as an export. Basically, there are three types of enterprises that are qualified for registration with the BOI under RA 6135. They are: (a) a registered export producer, (b) a registered export trader, (c) a registered service exporter.

After the declaration of martial law, several presidential decrees have been promulgated amending the two incentive legislations

discussed above. PD 92 (January 1973) and PD 485 (June 1974) have in large part liberalized the incentives granted earlier. Among others, PD 92 allows for the deduction of expansion reinvestment regardless of whether or not the profit reinvested is realized from registered operations; for the part time use of tax exempt capital equipment in non-registered operations; for the availment of special tax credit for an amount equivalent to the sales, compensating and specific taxes on semi-manufactured products used in the production of export products for an indefinite period (instead of 10 years); for the additional deduction from gross income of one-half of the value of labor training expenses incurred for upgrading the efficiency of unskilled labor; and the additional deduction from taxable income of an amount equivalent to labor and local raw material costs up to a maximum of 25 per cent of export revenue. However, certain provisions of the said decrees removed or restricted the implementation of some of the incentive granted by the two basic incentive laws. For instance, PD 92 abolished the double deduction of promotional expenses and shipping costs of exporting firms registered under RA5186. Likewise, it limits the expansion reinvestment allowance from 100 per cent to 25, 37.5 and 50 per cent of the amount reinvested in the case of non-pioneer projects, and to 50, 75 and 100 per cent in the case of pioneer projects. PD 485 grants partial (instead of full) exemption from customs duties and compensating tax on imported capital equipment, withdraws or limits the incentives granted under RA 5186 and RA 6135 when the registered enterprises has a paid-up capital of at least P500,000 and earns, for at least two years, profits in excess of 33.5 per cent of equity.

In January 1981, the Omnibus Investments Code was promulgated. The said Code revised, amended and codified the Investment Incentives Act, the Export Incentives Act and the Agricultural Incentives Act (which was instituted in June 1977 to provide fiscal incentives to the agricultural sector). Among other incentives, the Omnibus Investments Code grants registered firms the following: (1) tax deduction of organizational and pre-operating expenses, (2) accelerated depreciation, (3) net operating loss carry over, (4) expansion reinvestment allowance, (5) tax deduction of labor training expense, (6) tax deduction of a portion of export sales or its increment, (7) tax deduction of direct labor cost and local raw material cost, (8) exemption from tariff on imported capital equipment, (9) exemption from the export tax, and (10) credit for taxes paid on domestic capital equipment. (See Table 7 for a comprehensive listing).

In addition to the long list of incentives in the two basic incentive laws discussed above, the Philippine tax system is riddled with tax incentives which have been granted to particular industries through individual pieces of legislation. Among the more important ones pertain to cottage industries (RA 3470 as amended by RA 5326), chemical fertilizers (PD 135), mining (PD 237), textiles (RA 2351, RA 3127, RA 4086), overseas shipping and shipbuilding industries (RA 1407), tourism (PD 535 of 1977) and overseas construction PD1167). The most common feature of these laws is exemption from duties on imported capital goods and raw materials and from

compensating sales taxes. Some of these laws, like the Cottage Industries Act, grant exemptions from all taxes except specific and income taxes.

2.2 Philippine Tax Revenues, 1957-1978

Revenues from taxation by type of tax is presented in Table 8. Total tax collections grew at an average annual rate of 16.9 per cent during the period 1957-1978. Over the years, the proportional increments in aggregate tax revenues had been fairly stable except for the sharp increases in 1964, 1971, 1973, 1974 and 1975. The growth rates of the different tax categories were very close to that of total tax collections except for the "other taxes" category which grew at 26.8 per cent per year on the average and excise taxes which exhibited the slowest upward movement at 12 per cent yearly growth rate on the average.

In terms of their contribution to total tax collections, there had been some shift in the relative importance of the different tax categories except for license and business taxes whose share remained at roughly 21 per cent over the years. The contribution of excise taxes and import duties declined from 24 per cent and 29 per cent in the earlier years to 12 per cent and 25 per cent, respectively, in the later years. On the other hand, the proportion of revenues attributable to other taxes and income taxes increased from 4.6 per cent to 17 per cent and 25 per cent, respectively. Within the income tax category, the individual income tax is gaining in importance over the years.

2.3. Issues on Taxation

In this section, the various issues in the field of taxation as they pertain to the Philippine setting and as they are tackled by writers in the area will be discussed. These issues cover the following topics: (1) tax performance, (2) tax incidence, (3) allocative effects of taxation, (4) taxation and inflation and (5) tax forecasting.

2.3.1 Tax Ratio, Tax Effort, Tax Performance and Related Studies

Tax performance is by far the most widely researched topic in the area of taxation. Tax performance refers to the degree at which a country's tax base or taxable capacity has been exploited in its effort to mobilize government resources. The most commonly used indices of tax performance are (1) the tax ratio, i.e., the ratio of taxes to gross national product (GNP) and (2) the tax effort index, i.e., the ratio of actual to predicted ratios. In the literature, the predicted tax ratio is referred to as "taxable capacity." Lotz and Morss (1967) and others following their approach regressed actual tax ratios on various explanatory variables affecting taxable capacity. The resulting equation was then used to "predict" taxable capacity given actual values of the explanatory variables. This predicted taxable capacity may be interpreted as the tax ratio that would have obtained had the government made the average tax effort. This approach implicitly assumes that all major factors

affecting taxable capacity are included in the regression equation.

Several writers had focused on intercountry tax performance comparisons. Lotz and Morss (1967) using 1963-1965 data ranked the Philippine tax ratio 44th from a sample of 52 less developed countries. In terms of tax effort the Philippines is number 41. They based their taxable capacity estimates on a regression equation with per capita income and export plus imports as explanatory variables reflecting the stage of economic development and the size of the foreign trade sector, respectively. Shin (1969) measured the tax ratio and tax effort index of 47 developed and developing nations for the period 1963-1965 and found that the Philippine tax ratio ranked 36th while the Philippine tax effort is number 43. As determinants of taxable capacity, Shin considered the share of agriculture in GNP, the rate of inflation and the growth rate of the population. However, only the first and the last variable mentioned above proved statistically significant. Chelliah (1971) studied the tax performance of 49 developing countries. The Philippine tax ratio of 9.8 for 1966-1968 ranked 40th while its tax effort index ranked 39th. The factors affecting taxable capacity included in this study were per capita non-export income as a proxy for the level of economic development, share of mining in GNP as a proxy for the composition of income and the ratio of non-mining exports to GNP as a proxy for the degree of openness. Bahl (1971) analyzed the tax effort in

1966-1968 of 49 less developed countries and based on his results the Philippine tax effort index of 0.76 is number 39 from the top. Bahl investigated three variables for his taxable capacity equation: (1) the stage of economic development as measured by the share of agriculture in gross domestic product (GDP); (2) the sectoral composition of income as measured by the share of mining in GDP, and (3) the size of the foreign trade sector as measured by the share of exports in GDP. The last variable was dropped from the estimating equation for taxable capacity because it was highly collinear with the second variable. Sicat (1972) likewise showed that the Philippine tax ratio, is well below that of its Asian neighbors. To sum up, the intercountry studies discussed above indicate that the Philippine tax performance may be characterized as 'low".

Caballes (1975), on the other hand, used Philippine time series data from 1955 to 1970 in evaluating the country's tax performance. The actual tax ratio dropped from 13.5 per cent in 1955 to 11.7 per cent in 1970 while taxable capacity (as determined by per capita income and the size of the foreign trade sector) rose from 15 per cent to 21 per cent over the period. This resulted in the decline of the tax effort index from 0.9 to 0.6. This indicates a 'poor and at the same time deteriorating Philippine tax performance' during the period. She also proposed two alternative measures of tax performance: (1) the marginal tax rate (the ratio of the absolute change in tax yields to the absolute change in income for a given period) and

(2) the income elasticity of tax revenue, (the ratio of the percentage change in tax yields to the percentage change in gross income over a particular period). The marginal tax rate averaged 0.11 while the income elasticity of tax was 0.97 for the given time period. Caballes observed that "no pattern of improvement was seen in either the marginal tax rate in the income elasticity…confirming the conclusion that tax performance was poor." She further noted that this was due to "a failure to update antiquated tax laws; a failure to introduce new taxes…, and the inability of the government, particularly the local governments, to fully exercise their powers."

If one were to look at the tax ratios only, the implication is that the attainment of a high tax ratio in the context of ever increasing growth rates depends on the elasticity of taxes with respect to GNP. There are at least four tax elasticity studies in the Philippines. Sicat (1971) analyzed how tax revenue sources behave in relation to GNP. He regressed tax revenue in the current period on GNP lagged one semester for different tax sub-groupings using 1954-1970 data. He found out that most of the taxes have income elasticities exceeding one based on his regression results (total elasticity is 1.097). He observed that "whether such elasticity values are an indication of the growing efficiency of the tax collecting machinery or of an increase in some tax rates is something that has not been fully verified; nevertheless, the elasticity values show a fairly optimistic assessment of the tax performance of the country." Sinay

(1974) likewise obtained tax elasticity and tax buoyancy coefficients exceeding unity for the period 1961-1972. She defined tax elasticity as the ratio of the proportional increase in tax revenues to the proportional increase in GNP with the effects of discretionary factors siphoned out of the revenue increases and estimated this measure to be 1.04. She defined tax buoyancy as the ratio of the percentage change in tax revenues to the percentage change in GNP with the revenue changes inclusive of the effects of discretionary factors. Tax buoyancy was estimated to be 1.31 for the period under study. In contrast, Caballes (1975) estimated the income elasticity of aggregated tax revenue to be 0.97 for the period 1950-1970. NTRC (1975) analyzed the income elasticity of the individual and the corporate income taxes for the years 1963-1970. The aggregated income elasticity of a tax is partitioned into two components: (1) the rate elasticity, e_r , and (2) the base elasticity, e_b. The rate elasticity is the ratio of the percentage change in tax yield to the percentage change in tax base (the amount subject to tax) while the base elasticity is the ratio of the percentage change in the tax base to the percentage change in total income. Thus, $e = e_r e_b$. The rate elasticity measures the progressiveness of the tax structure as well as tax administration improvements while the base elasticity measures the responsiveness of the tax base to increases in income. The results indicate that the individual income tax is inelastic with an aggregate elasticity 0.98. The rate elasticity was estimated to be 1.081 reflecting a slightly progressive rate structure while

the base elasticity was 0.9 indicating an inelastic base structure. On the other hand, the corporate income tax has an overall elasticity of 0.98 with a relatively higher rate elasticity of 1.15 and relatively lower base elasticity of 0.85. The inelasticity of both income taxes was attributed by the authors to the erosion of the tax base as a result of generous deduction and/or exemption allowances.

It should be pointed out that all of the studies discussed above are based on 1960's data. No attempt has been made to improve on said studies in terms of using more recent data base.

2.3.2 Tax Incidence

Tax incidence studies attempt to answer the question: "who bears the tax burden in the economy?" Taxation, in general, reduces the personal income, transfers in the form of gifts or inheritance and land rentals of some people and increases the prices of goods and services consumed by others. These losses and price increases consist the tax burden to these people.

In the Philippines, three tax incidence studies have been conducted. The first one is that of the Joint Legislative – Executive Tax Commission (JLETC) which was based on a household survey of income and expenditures in 1961 (see JLETC, 1964). This study related the average tax paid to

average income earned by each household groups classified according to income levels. It was assumed that the individual income tax is generally not shifted forward while the corporate income tax tends to be passed on to consumers. As such, part of corporate income was distributed to the various income brackets based on the share of a given income class to total expenditures of all households while the rest was allocated to highest income class. The tax burden of production and sales taxes was assumed to be more or less proportional to the quantity or value of taxable goods and services purchased by each income class. Taxes on income and property was shown to be progressive with effective tax rate of the poorest income group being 0.19 per cent and increasing monitonically to 42 per cent for the richest income group. Taxes on production and sales were regressive. The effective tax rate of this group of taxes decreases from 28 per cent for the poorest income group to 9.86 per cent for the richest income bracket. The regressiveness of the production and sales taxes was not offset by the progressiveness of the income and property taxes except for the top most income bracket. This is reflected in the overall effective tax rate of 28 per cent for the lowest income group which declined to 14.5 per cent for the fifth richest income grouping and rose sharply to 52 per cent for the uppermost income bracket.

Kintanar (1963a) looked into the incidence of some direct taxes using 1960 data. He considered five types of direct

taxes: using 1960 data. He considered five types of direct taxes: (1) individual income tax which was assumed to be borne by the statutory taxpayers, (2) corporate income, one-third which was allocated to different income classes according to the percentage distribution of total household expenditures, another third was assumed to be borne by the stockholders and the remainder was not allocated at all and is presumed to remain in the corporation, (3) real property tax which was allocated according to the real property holdings of the various income classes, (4) transfer taxes which were distributed to the two highest income groups based on the distribution of income in said groups, and (5) residence taxes which were allocated according to the distribution of families by income class. Based on his estimates of effective tax rates by income class, he concluded that "the direct taxes became distinctly progressive only after the income class ₱9,000 or higher; there was no clear progressivity in the tax rate structure in the lower income classes."

NTRC (1974a) updated the JLETC study using the same methodology and 1971 data on family income and expenditures but breaking down the highest income bracket in the earlier study into three groups. The general direction of the tax burden estimates of NTRC are the same as that of the JLETC.

It should be noted that the results of these studies are determined largely by the assumptions made by the various

authors as to how the different taxes are shifted or allocated to the different income classes. Furthermore, no attempt has been made to improve on these studies either by checking the applicability of said assumptions or by utilizing later data base.

Nevertheless, the International Monetary Fund Mission headed by Richard Bird in 1974 (IMF 1975) concluded that "the tax reforms since martial law has therefore probably been that the better-off people in society… pay a relatively higher proportion of their income in taxes than they did before." They further asserted, however, that "there is no question that it is within the power of the Philippines to have a significantly more progressive tax system than it now does."

2.3.3 Allocative Effects of Taxation

The imposition of taxes, in general, and tariff and indirect taxes, in particular, affects the allocation of productive resources into the various industrial sectors. The effective rate of protection defined as the percentage excess of domestic value added resulting from tariff and indirect tax protection or free trade value added in a given industry is the most widely used indicator of the incentive structure provided to the different industries by the tax system. An industry with a high effective rate of protection relative to that of another industry is said to be favored over the latter.

There are two studies dealing with the estimation of the effective rates of protection of the different industries in the Philippines. Power and Sicat (1971) analyzed the structure of protection system and its effects on resource flows in 1974. A comparison of the findings of these two studies indicate that there is no substantial difference between the pattern of protection observed in 1965 to that observed in 1974. The general conclusions of these studies may be summarized as follows: (1) manufacturing is favored over the other sectors; (2) exports, both manufactured and non-manufactured, are penalized relative to non-exports; and (3) the finishing stages of producing consumption goods is favored over intermediate goods and capital goods production.

In addition to these biases brought about by the imposition of import duties and indirect taxes, the tax incentive scheme embodied in the Investment Incentives Act and the Export Incentives and available to selected industries, introduces its own set of biases. The International Labor Organization ILO (1974) and the IMF (1975) both pointed out that the existing set of incentives lowers the price of capital thus inducing businessmen to invest more in capital and to use it less efficiently than is socially desirable in country where capital is scarce and labor is abundant. Gregorio (1979) investigated the set of fiscal incentives administered by the Board of Investments (BOI) in terms of its effects on the rate of return (an important determinant of profitability and consequently, of

the amount of investment) and relative factor prices (a significant factor influencing relative factor use). She concluded that : (1) BOI incentives provide a substantial subsidy to any individual firm as reflected in the significant increase in the potential rate of return as a result of the various incentives; (2) BOI package has a strong capital-cheapening effect implying a serious bias against employment creation; (3) many of the incentives represent circuitous way of achieving the policy goal resulting in unwelcomed side effects and in a dilution of the effectiveness of the incentive scheme.

2.3.4 Inflation and Taxation

NTRC (1977) analyzed the effects of inflation on the individual income tax structure for the ten-year period starting 1964 to 1974 using hypothetical families with income levels ranging from ₱2,000 to ₱40,000 per annum and family sizes of 2, 4 and 6. The authors concluded that (1) taxable portion of the constant real income had consistently increased over the period implying that the value of exemptions and deductions in real terms had continually declined for the same period; (2) the real effective tax rates had risen steadily; (3) given the same real income, real disposable income had shrunk over the ten-year period as a consequence of larger tax obligations; and (4) families with more dependents and families in the lower income brackets were more adversely affected by inflation, e.g. , the taxable portion of their constant real income and the real

effective tax rate had increased faster. The paper attributes the above mentioned findings to the fact that the taxable base increases with inflation in as much as the principal tax deductible items are expressed in nominal fixed amounts.

In a related study, NTRC (1980) looked into the possibility of increasing the personal exemptions in the individual income tax scheme as well as into the advantages and disadvantages of using an indexation scheme that will continue taxing each level of income at approximately the same rates as in the base year.

2.3.5 Tax Forecasting and Estimation of Public Revenue Needs

Good estimates and forecasts of public revenue and/or tax revenues are important inputs into the budgetary process. Kintanar and Mijares (1965) attempted to set up a framework within which the collections of the Bureau of Internal Revenue and the Bureau of Customs may be forecasted. The authors proposed different estimation techniques for different tax types. For corporate and individual income taxes, their approach consisted of: (1) projecting the number of corporations (or individual) in each particular bracket for the given year ahead by means of trend regression equation and (2) multiplying this number by the mean net taxable income for the corresponding bracket. For taxes on commodities, license, business and occupation taxes, the forecasts were based on separate

projections for each subcategory using a regression linear, quadratic, cubic and exponential, whichever yields better fit of tax collection and/or tax base on time.

Diokno (1972) on the other hand, based his projections of public revenue needs for 1972-1975 on a 12 equation econometric model of the public sector estimated with 1959-1970 data where GNP, the money wage rate and government investment expenditures were considered exogenous while total public revenue and its components (direct taxes, indirect taxes, taxes from the foreign trade sector and non-tax revenues), government consumption expenditures and its components, government savings and government borrowings were considered endogenous. Essentially Diokno's procedure involved the estimation of total public revenue and total government spending given values for his exogenous variables (usually the target values given in the national economic plan). He observed that on the basis of planned income growth, the public revenue needs of the economy for 1972-1975 cannot be sustained by the tax system.

Chapter III

GOVERNMENT EXPENDITURES / GOVERNMENT SAVINGS

3.1 Growth and Pattern of Government Expenditure

Government expenditures may be classified according to functional use into five broad categories: (1) economic development expenditures, (2) social development expenditures, (3) national defense expenditures, (4) general public services expenditures and (5) debt services. Economic development expenditures include expenditures on agriculture and natural resources, on transportation and communications, on commerce and industry and on other economic development efforts. On the other hand, social development expenditures consist of government outlay on education, on public health and medicare, on labor and welfare and others. National defense expenditures may be sub-divided into national security expenditure and expenditures for the maintenance of peace and order. Spending on general administrative operations cover expenditures for the general government, for legislative services, for the administration of justice and for pensions and gratuitions.

Total government expenditures increased at an average annual rate of 16.6 per cent from P1.116 billion in 1951 to p32.66 billion in 1979 (see Table 9). Total government spending grew at an average of 10.4 per cent per annum between 1957 to 1979. During the first half of the seventies, government expenditure expanded at an accelerated pace (36.3 per cent annual rate of increase on the average) with the rate of increment reaching a peak of 57.6 per cent in 1975. From 1976 to the end of the seventies, this growth trend exhibited a tapering off with an average of 14 per cent per year for this period.

In real terms, total government expenditures grew at 7.8 per cent per year on the average from 1957 to 1978.[4] Prior to 1967 the growth of aggregate government spending was sluggish as reflected in an average 1.5 per cent rate of annual increase for the period as compared with the 29.2 per cent average yearly growth rate for 1967-1979. The maximum rate of increase posted for any given year was 44 per cent (in 1973).

Total government expenditures was approximately 9.2 per cent of GNP on the average for the period 1959-1971. From 1972-1979, government expenditures as a proportion of GNP averaged 14 per cent reflecting increased government spending during the Martial Law regime.

Distribution-wise, the patterns of government expenditures has remained stable over the years. The bulk of government spending is channeled to economic development and social services. Taken together these two expenditure groupings account for approximately two-thirds of total government outlays. Until 1971, however, a slightly larger piece of the government expenditure pie went to the social development sector. From 1972 onwards, there was a shift in the expenditure thrust of the government as economic development is given more emphasis. National defense consisted roughly 15 per cent of total government spending during the period 1957-1979. On the other hand, the share of general administrative operations in total government expenditure was at the 10 per cent level all throughout the period except in the years 1976, 1977 and 1978 when its share rose to 17 per cent. Debt service rate up 6 per cent of total government

[4] Total government expenditures is real terms equals total government expenditures in current prices divided by the implicit price index for government consumption expenditures from national accounts statistics.

outlay up to 1977 when this proportion grew to 9 per cent. Among the sub-categories, education maintained its number one position in terms of budgetary allocation with over 25 per cent of total government expenditure on the average while transportation and communications playing second lead till 1972. After 1974, however, utilities and infrastructure moved up in terms of it share in government spending accounting for one quarter of the total figure.

3.2 Issues on Government Expenditures

To say that the literature on government expenditures in the Philippines is not voluminous is an understatement. Aside from works discussing the historical movements of government spending, other efforts in the field have concentrated on the following topics: (1) determinants of government expenditures and (2) incidence of government expenditures.

3.2.1 Determinants of Government Expenditures; Relation of Government Spending to Other Economic Variables

Sicat (1971) related the levels of government expenditures to the movements of GNP level lagged one semester and obtained a marginal expenditure coefficient of 0.106 and an elasticity of 1.21. The writer pointed out that the expenditure regressions imply that " the expansion of the economy generates a greater increase in governmental expenditures" than in total taxes (refer to 2.3.1 for elasticity of taxes). He added that "the implications of these of these findings for the fiscal operation of the government are policymaking; in some cases, the generation of more tax revenues implies a much greater increase in total demands for expenditures

and, therefore, generates also an increase in demand for some type of financing over and above the available tax resources." The regression of total expenditures on total taxes yielded a marginal coefficient of 1.386 confirming the fact that the government is not able to meet its expenditure requirements via taxation.

Jurado and Encarnacion (1972) related different types of government expenditures items on different economic variables in their government submodel of the Philippine economy using data 1955-1969. Expenditures for economic development was related to tax revenues and government borrowings while expenditures on social development was related not only to tax revenues plus borrowings but also to the size of the population that needs the services and wage rate that has to be paid to employees. Similarly, supply and demand factors were said to determine expenditures for national defense. The explanatory variables for this expenditure item included tax revenues and the wage rate. Debt service was related outstanding debt while expenditures on general administrative operations was determined by the size of the population and wage rate.

3.2.2 Incidence of Government Expenditures

Jayme (1974) studies the incidence of 12 government expenditure categories for the years 1961, 1965 and 1971 (years of the Family Income and Expenditure Surveys FIES, of the National Census and Statistics Office). She concluded that government expenditures were progressive in nature.

NTRC (1974b) also investigated the incidence of government expenditures using the 1971 FIES and somewhat more generous assumptions than Jayme in assigning benefits to the lower income groups. The study concluded that government expenditure incidence is favorable to the lower income classes.

Tan (1975) allocated the benefits of government expenditures to the different income brackets based on a national survey conducted in 1971 to obtain such allocators. From this, she estimated the effective rates of benefit by income class in 1971. She observed the effective rate of 62.7 per cent for the income class below ₱1,000 with the rate of benefits decreasing monotonically to 10 per cent for the income class ₱10,000 and over indicating the progressive nature of government taxes. She concludes that "the government sector, as a whole, hardly changed the distribution of income; the regressiveness of taxes were just offset by the progressiveness of government spending."

It should be noted that no effort has been done to update the above-mentioned studies after 1971.

Chapter 4

THE BUDGET SYSTEM

4.1 A Historical Perspective on the Philippine Budget System

Philippine Commonwealth Act 246 (1938) entitled the "Budget Act" defines the 'budget" as the financial program of the national government for a designated fiscal year, consisting of statements of estimated receipts and expenditures for the fiscal year for which it is intended to be effective based on the results of operations during the preceding fiscal years. This is different from the concept envisioned in Republic Act No. 992 entitled "An Act to provide for a Budget System for the National Government" or the Revised Budget Act, which declares it the policy of congress that "the whole budgetary concept of the government be based on functions, activities, and projects, in terms of "expected results." The latter term is defined as "a delineation of the services and products, or benefits that will accrue to the public together with the estimated unit cost of each type of service, and product or benefit.

The Revised Budget Act also provided for the creation of the Budget Commission under the executive control and supervision of the President and broadened its functions from simple budget operations to include greater involvement in fiscal policy matters.

Prior to the establishment of the Development Budget Coordination Committee (DBCC), the budget systems includes the planning bodies,

primarily the Presidential Economic Staff and the National Economic Council, and all other minor planning bodies especially concerned with the setting up of priority guidelines to allocate the scarce government resources to the most vital needs of the country as well as to influence the direction and pattern of development in the private sector.

DBCC, a National Economic and Development Authority (NEDA) subcommittee, studies ceilings applicable to revenues, expenditures and borrowings. This committee consist of the Minister of the Budget as Chairman, the Minister of Finance, the Minister of Economic Planning and Development and the Governor of the Central Bank of the Philippines as members.

The DBCC estimates the anticipated revenues for the government on the basis of historical performance and projections of economic conditions for the incoming year. It likewise estimates the cost of implementing the projects needed to achieve the goals established in the development plan. If it is necessary to borrow in order to meet the financial gap between projected revenues and the desired level of expenditures, the DBCC also estimates the maximum amount that the government can borrow without endangering its financial position.

It is on the basis of these studies that a recommendation is made to the President, the Cabinet and the Legislative Body, on the total budgetary ceilings upon which the budget is framed.

The national Budget has long been recognized as an instrument for the effective implementation of national development strategy. The principal objectives of the budget system of the Philippines are: (1) to carry on all government activities under a comprehensive fiscal plan developed, authorized and executed in accordance with the Constitution, prevailing statutes and the principles of sound public management, and (2) to provide for periodic review and disclosure of the budgetary status of the Government.

The budget process may be divided into four steps: (1) budget preparation, (2) legislative authorization, (3) budget execution and reporting and (4) budget accountability.

4.1.1 Budget Preparation

Budget preparation is the first step and covers the estimation of government revenues, the determination of budgetary priorities and activities within the constraints imposed, by available revenues and by borrowing limits, and the translation of approved priorities and activities into expenditure levels. Estimates are prepared by the various agencies of the government, collated and received, and finalized by the President and then submitted to the legislative as basis for the preparation of the annual Appropriation Act.

The budgetary submission to the Batasang Pambansa is in the form of a Budget Message, accompanied by analyses and statement containing details of revenue, expenditures and debt, as well as an

assessment of the anticipated impact of the budget on the country. Details of agency operations for the budget year and for past and current years accompany the message.

4.1.2 Legislative Authorization

Legislative authorization constitutes the second step of the budget process. The legislative body acts on the budget proposals of the President and formulates an Appropriation Act following the process established by the Constitution, which specifies that no money may be paid from the Treasury except in accordance with an appropriation made by Law.

Appropriation are approved by the legislative body in the form of (a) a General Appropriations law which covers most of the expenditures of the government, (b) the various public works acts, (c) supplemented appropriation laws that are passed from time to time, and (d) certain automatic appropriations intended for specific purposes. As in other laws passed by the legislature, the constitution provides for an approval of the Appropriations Act by the President.

4.1.3 Budget Execution and Reporting

Budget execution and reporting covers the various operational aspects of budgeting. Once the budget is approved by the Batasang Pambansa, the responsibility for implementating it rests with the Budget Commission. This stage in the budget process thus consist of

the activities necessary to place a Budget in operation and the action taken during operations. The establishment of obligational authority ceilings, the evaluation of work, and financial plans for individual activities, the continuing review of government fiscal position, the regulation of funds release, the implementation of cash payment schedules, and other related activities comprise this phase of the budget cycle.

The continuing work of budgeting includes the review of organizational developments, the study of position classification and compensation plans, and generally the function of ensuring that funds are available in support of agency activities, given the limitation of approved appropriations and available cash.

4.1.4 Budget Accountability

The fourth phase, budget accountability refers to the evaluation of the actual performance and initially approved work targets. Obligations incurred , personnel hired and work accomplished are compared with the targets set at the time agency targets work approved.

Performance budgeting relations targeted work units, standard costs per unit of work, and the estimated expenditure level for each budgeting project. This phase completes the budget cycle by comparing actual expenditures and performance with the planned expenditure and performance levels.

4.2 Issues on the Budget System

Issues related to the budget system may be divided into: (1) the budget and economic development and (2) administrative issues.

4.2.1 The Budget and Economic Development

Fernandez work (1973) is by far the most comprehensive attempt to describe and evaluate the country's economic development efforts through the national budget. Based on Lampman's (1967) estimates of the sources of growth in the Philippines, she concludes that the government's contribution to average GNP growth for the period 1955-1965 is 0.35 of one per cent.

Riha (1975) on the other hand, estimated the effect of budget changes in GNP using the demand type model used by Hansen (1969). He found out that year to year changes in the budget exerted an upward push on GNP of 0.63 per cent on the average for 1947-1973.

4.2.2 Administrative Issues

Fernandez (1975) pointed out that the "delineation of budget expenditures into current operating and capital outlays tends to be misleading" in as much as current expenditures may contain a developmental element.

She also noted that fiscal planning should imply planning the budget over the medium term rather than planning it annually. This is especially critical when one considers the capital formation process which usually involves time lags.

Claudio (1978) likewise stressed the need for long-term budgeting. She outlined the factors that must be taken into consideration in the preparation of a long-term budget. She also discussed the relationship of long-term budgeting to other budgeting approaches like zero-base budgeting, key budgetary inclusion technique and regional budgeting.

Chapter 5
PUBLIC DEBT

5.1 Growth and Pattern of Public Debt

Public debt may be classified according to source: (1) internal or domestic, and (2) external or foreign. Public borrowing may also be categorized as (1) direct borrowings of both the national and the local governments, and (2) guaranteed and non-guaranteed debt of government corporations, and (3) debt of monetary institutions. Public debt may also be grouped according to maturity: (1) short-term debt (payable within one year), (2) medium term debt (payable after one year but not beyond five years), and (3) long-term debt (payable beyond a period of five years).

Total public borrowings exhibited sustained upward movement from 1955 to 1979 (refer to Table 11). The average growth rate for the period is 18.8 per cent with sharp increases in 1961, 1965, 1967, 1969, 1972 and 1974. 1961, 1965 and 1969 were election years, while 1967 was marked by the "rice and roads" program of President Ferdinand Marcos; and 1972 was the year of the big floods during which the government spent huge amounts for rehabilitation and 1974 witnessed the quadrupling of oil prices.

Borrowings from abroad grew faster (26 per cent per annum) than domestic debt (15 per cent per year) on the average for the period 1955-1979. The movement of external debt seems tied to the balance of payments position of the country. For instance, in the early sixties, a decline in external debt may be observed hand in hand with an improvement in the balance of payments position.

Distribution-wise, the share of domestic borrowing in total public debt declined from 87 per cent in 1955 to 43 per cent in 1979. Correspondingly, the share of foreign borrowings increased from 13 per cent to 57 per cent during the period.

Over the years, the bulk of public borrowings is used by the national government and government corporations. However, monetary institutions are increasing their share in public debt. In 1970, the Central Bank (CB) issued Central Bank Certificates of Indebtedness and for the first time the CB availed of borrowings from local sources.

Long-term loans accounted for 87 per cent of total public borrowings in 1955 as compared to 45 per cent in 1979 (Refer to Table 12). In contrast, the share of medium-term and short-term loans increased during the period. This observed shift towards shorter termed loans and may indicate that a bigger part of public borrowings are being used to finance non-capital expenditures.

5.2 Issues on Public Debt

Existing literature on public debt in the Philippines have concentrated on two issues: (1) the level of debt and (2) debt and inflation.

5.2.1 The Level of Debt and the Burden of Debt

Sioson (1975) noted that compared to that of the US and those of other Asian countries (Ceylon, Malaysia), the Philippine ratio of public debt to GNP is low. She also showed that interest payments and debt service (interest plus repayments) had remained low relative to total government expenditure. These ratios averaged 2.6 per cent and 6.6 per cent, respectively over the period 1950 to 1972. Another indicator of the burden of debt used by Sioson is the external debt service ratio (repayment of external debt divided by total export earnings). From 1950 to 1961, this figure was relatively modest at 2.6 per cent. However, the external debt service ratio increased to an average of 15 per cent between 1962 and 1972.

5.2.2 Public Debt and Inflation

One of the causes often cited for inflation is public debt via its effect on the money supply level. Sioson (1975) concludes that "since money supply expansion is not a principal factor in Philippine inflation, public borrowings which contribute to increases in money supply not have a significant bearing in Philippine inflation." She based this statement on the works of Ross (1966) and Bautista (1975) which related the price level and changes in the price level to the money supply and found no significant relationship. Of course, this is not exactly the best way to test the hypothesized relationship between public debt and inflation.

Chapter 6

SUMMARY AND CONCLUSION

In the previous four chapters, a historical background as well as a discussion of the major issues on taxation, government expenditure, the budget process and public debt were presented. From this, it is apparent that taxation attracted the greatest amount of interest and work effort in the area of public finance while the budget process and public debt are the least explored topics. Also, it may be observed that the bulk of the research work undertaken in public finance was conducted for the period of sixties or earlier. In the 1970s, interest in the field seemed to be on the wane.

At this point, an attempt will be made to identify some of the gaps in the research efforts in public finance based on the review of the existing literature that had just been undertaken. (1) The need for a more comprehensive fiscal incidence study is suggested. This should consist of a critical review of the assumptions made in the previous studies with regards to the allocation of government expenditure benefits and tax burden to the various income groups as well as a quantification of the incidence of other fiscal policies like price control on certain consumption goods, price support on certain output, subsidies on some inputs, etc. (2) Government revenue forecasting is another area worth looking into. Previous efforts along this line made use of very limited information (a sub-sample of the tax returns of the previous year). Improvements on this is an essential input to the government's long-term budgeting endeavor. (3) Substantive work on long-term budgeting is also imperative. This should include the development of an econometric projection model or a programming model or a combination of both in

estimating the required figures for a long-term budget. (4) A study on the incidence of fiscal policy on the different industrial sectors is likewise suggested. This should include an investigation of the protective effects of internal taxes on the different industries. This would be a good complement to studies on effective protection rates in tracing the effects of the whole set of fiscal policies on resource allocation. (5) An integrated public sector model is also needed. Almost all of the previous work on public finance are fragmented in the sense that only one sub-sector, e.g., taxation is considered. A model of the public sector should provide the badly needed cohesiveness in this area by accounting for the inter-relationship among the different sub-sectors.

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Table 1
The Personal Income Tax Rate Schedule

Net Taxable Income								Tax Rates
Over		But Not Over						of Excess Over
	P	2,000				3	%	
P 2,000		4,000	P	60	+	6	P	2,000
4,000		6,000		180	+	9		4,000
6,000		8,000		360	+	12		6,000
8,000		10,000		600	+	14		8,000
10,000		12,000		880	+	16		10,000
12,000		14,000		1,200	+	18		12,000
14,000		16,000		1,560	+	20		14,000
16,000		18,000		1,960	+	22		16,000
18,000		20,000		2,400	+	24		18,000
20,000		24,000		2,880	+	27		20,000
24,000		28,000		3,960	+	30		24,000
28,000		32,000		5,160	+	33		28,000
32,000		36,000		6,480	+	36		32,000
36,000		40,000		7,920	+	39		36,000
40,000		46,000		9,480	+	42		40,000
46,000		52,000		12,000	+	44		46,000
52,000		58,000		14,640	+	46		52,000
58,000		64,000		17,400	+	48		58,000
64,000		70,000		20,280	+	50		64,000
70,000		78,000		23,280	+	52		70,000
78,000		86,000		27,440	+	54		78,000
86,000		94,000		31,760	+	56		86,000
94,000		102,000		36,240	+	57		94,000
102,000		110,000		40,800	+	58		102,000
110,000		120,000		45,440	+	59		110,000
120,000		130,000		51,340	+	60		120,000
130,000		140,000		57,340	+	61		130,000
140,000		150,000		63,440	+	62		140,000
150,000		160,000		69,640	+	63		150,000
160,000		180,000		75,940	+	64		160,000
180,000		200,000		88,740	+	65		180,000
200,000		250,000		101,749	+	66		200,000
250,000		300,000		134,740	+	67		250,000
300,000		400,000		168,240	+	68		300,000
400,000		500,000		236,240	+	69		400,000
500,000		-		350,240	+	70		500,000

Source: National Internal Revenue Code (NIRC) of 1977.

Table 2
The Gift Tax Rate Schedule

If the net gift is Over	But Not Over	Plus	The Tax is of Excess Over
P 1,000	P 50,000	1.5	P 1,000
50,000	75,000	735	2.5 % 50,000
75,000	100,000	1,360	3 75,000
100,000	150,000	2,110	6 100,000
150,000	200,000	5,110	9 150,000
200,000	300,000	9,610	12 200,000
300,000	400,000	21,610	15 300,000
400,000	500,000	36,610	18 400,000
500,000	625,000	54,610	21 500,000
625,000	750,000	80,860	24 625,000
750,000	875,000	110,860	28 750,000
875,000	1,000,000	145,860	32 875,000
1,000,000	2,000,000	185,860	36 1,000,000
2,000,000	3,000,000	545,860	38 2,000,000
3,000,000	-	925,860	40 3,000,000

Source: National Internal Revenue Code of 1977.

Table 3
The Estate Tax Rate Schedule

If the net estate is: Over	But Not Over	Plus		The Tax is of Excess Over
10,000	50,000	-	3 %	10,000
50,000	75,000	1,200	4	50,000
75,000	100,000	2,200	5	75,000
100,000	150,000	3,450	10	100,000
150,000	200,000	8,450	15	150,000
200,000	300,000	15,950	20	200,000
300,000	400,000	35,950	25	300,000
400,000	500,000	60,950	30	400,000
500,000	625,000	90,950	35	500,000
625,000	750,000	134,750	40	625,000
750,000	875,000	184,250	45	750,000
875,000	1,000,000	240,350	50	875,000
1,000,000	2,000,000	303,450	53	1,000,000
2,000,000	3,000,000	833,450	56	2,000,000
3,000,000	-	1,393,450	60	3,000,000

Source: National Internal Revenue Code of 1977.

Table 4
The Structure of the Sales Tax

RATE	COMMODITIES
50%	Jewelry, pearls, precious and semi-precious stones and imitations thereof; Perfumes, essenses, extracts, toilet waters, cosmetics, hair dressings, hair restoratives and toilet powders;
	Dice, mahjong sets and playing cards; and Juke boxes.
25%	Luggage, trunks, valises, traveling bags, suitcases, etc.;
	Harprichord and accordions;
	Firearms and ammunitions;
	Electric, gas or oil water heaters, electric mixers, whippers, juicers, electric vacuum cleaners or polishers;
	Washing machines, cloth dryers;
	Mechanial lighters;
	Textiles of silk, wool or linen; nylon or other synthetic and/or chemcial fabrics except those primarily intended for clothing;
	Toys and playthings of all sort;
	Beverage coolers, ice cream cabinets, water coolers, food and beverage storage cabinets, ice-making machines and milk cooler cabinets;
	Air-conditioning units;
	Electricity and/or battery operated beauty equipment and accessories; and
	Pianos, electric or electronic musical organs.
10%	All articles not enumerated elsewhere.

Table 4 (continued)

RATE	COMMODITIES
5%	Wheat flour;
	Poultry, swine and cattlefeeds;
	Cement
	Locally processed meat, milk, fish and other seafoods;
	Locally manufactured medicine;
	Locally manufactured laundry soap and detergents; and
	Locally manufactured writing pads, notebooks and lead pencils.
1%	Locally produced agricultural products.
10%-25% [a/]	Fountain pens and ballpens;
	Chairs, sofas, beds, desks, book cases, cabinets, etc.;
	Watches and clocks;
	Electric fans and exhaust fans;
	Electric gas and oil stoves and ranges;
	Phonographs, tape recorders, video-tape recorders, tape decks, car stereos, cassette-radio;
	Television sets;
	Refrigerators and freezers
10% - 70%	Locally manufactured automobiles
100% - 200%	Imported automobiles

[a/] graduated rates of 10% - 25% depending on price for locally manufactured items and flat rate of 25% for imported items.

Source: NIRC of 1977 as amended by PD 1357 and PD 1358.

Table 5
Specific Taxes in the Philippines

PRODUCT	TAX BASE	RATE (Peso)
Tobacco products		
Cigarettes		
Packed in 30's		
Retail price less than P0.90 per pack	1000 cigarettes	3.00
Retail price from P0.90 to P1.25	"	5.00
Retail price more than P1.25	"	8.00
Packed in 20's		
Retail price less than P1.40		14.00
Retail price from P 1.40 to P 1.75	"	20.00
Retail price from P 1.75 to P 2.05	"	22.00
Retail price from P 2.05 to P 2.40	"	25.00
Retail price from P 2.40 to P 2.85	"	37.00
Retail price from P 2.85 to P 3.35	"	45.00
Retail price more than P3.35	"	55.00
Domestic cigarettes mechanically wrapped or packed		150 per cent of above rates
Imported cigarettes		82.00
Cigars		
Wholesale price less than P30 per 1,000	1000 cigars	2.30
Wholesale price from P30 to P60	"	4.60
Wholesale price more than P60	"	7.00
Chewing tobacco	kg.	0.60
Other tobacco products	kg.	0.75
Alcoholic Beverages		
Distilled spirit		
Produced from local raw materials	proof liter	2.40
Produced from local raw materials by small distillers	proof liter	1.56
Imported or produced from imported raw materials	proof liter	35.00

Table 5 (continued)

PRODUCT	TAX BASE	RATE (Peso)
Wines		
Sparkling wines	Liter of volume	12.00
Imported sparkling wines	"	26.40
Still wines (less than 14 per cent alcohol)	"	2.00
Imported still wine (less than 14 per cent alcohol)	"	4.40
Still wines (more than 14 per cent alcohol)	"	4.00
Imported still wine (more than 14 per cent alcohol)	"	8.80
Beer	"	1.20
Imported Beer	"	2.40
Petroleum Products		
Gasoline	Liter of volume	
Premium	"	1.10
Aviation	"	1.00
Regular	"	1.00
Naphta	"	1.06
Kerosene	"	0.09
Lubricating Oil	"	0.80
Diesel Fuel Oil	"	0.25
Bunker Fuel Oil	"	0.05
Aviation Turbo Jet-A	"	0.64
LPG	Kilograms	0.21
LPG (Motive Power)	Kilograms	0.25
Thinners/Solvents	Liter of volume	0.61
Asphalts	Kilogram	0.12
Grease/Petroleum/Waxes	Kilogram	0.50
Process Gas	Liter of volume	0.03
Miscellaneous Excises		
Matches (not over 80 in box)	gross of boxes	0.50
Fireworks	kilogram	0.30
Coal and coke	metric ton	0.25
Cinematographic films (less than 16 mm more than 16 mm)	linear meter	0.225 - 0.30
Saccharine	kilogram	75.00

Note: Quarts to liter x .946
Gallons to liter x 3.78533
Barrels to liter x 158.98386
U.S. barrels to liter x 161

Source: National Internal Revenue Code (1977).

Table 6
Export Tax Rates

Mineral Products	
Copper ore and concentrates	6 %
Iron ore and concentrates	4
Chromite ore and concentrates	4
Cement	4
Gold	4
Wood Products	
Logs	10 %
Lumber	4
Plywood and veneer	4
Coconut Products	
Copra	6 %
Coconut oil	4
Copra meal and cake	4
Desiccated coconut	4
Sugar Products	
Centrifugal sugar	6 %
Molasses	4
Other Products	
Abaca	4 %
Banana	4
Pineapple products	4
Tobacco products	4
Shrimps and prawns	4

Source: Tariff and Customs Code

Table 7
Summary of Incentives Under the Omnibus Investments Code

Incentives	EXPORT FIRMS		NON EXPORTING FIRMS		AGRICULTURAL FIRMS	
	Pioneer	Non Pioneer	Pioneer	Non Pioneer	Pioneer	Non Pioneer
A. Rights and Guarantees to Register Enterprises						
1. Basic rights and guarantees under the Constitution	X	X	X	X	X	X
2. Right to repatriate investments and remit earnings	X	X	X	X	X	X
3. Right to remit foreign exchange to service foreign loans and obligations arising from technological assistance contracts	X	X	X	X	X	X
4. Freedom from expropriation of investment						
5. Freedom from requisition of investment, except in event of war or national emergency and only for the duration thereof	X	X	X	X	X	X
B. Incentives to Register Producer Enterprises						
1. Deduction of organizational and preoperational expenses from taxable income over a period of not more than 10 years from start of operation[1]	X	X	X	X	X	X

Table 7 (continued)

Incentives	EXPORT FIRMS		NON EXPORTING FIRMS		AGRICULTURAL FIRMS	
	Pioneer	Non Pioneer	Pioneer	Non Pioneer	Pioneer	Non Pioneer
2. Accelerated depreciation [2]	X	X	X	X	X	X
3. Carry-over as deduction from taxable income of net operating losses incurred in any of the first 10 years for the year immediately following said loss	X	X	X	X	X	X
4. Exemption from tariff duties and compensating tax on imported machinery	X[9]	X[4]	X[4]	X[3]	X[4]	X[3]
5. Tax credit for taxes witheld on interest payments on foreign loans	X	X	X	X	X	X
6. Tax credit for expenditures on infrastructure works [5]	X	X	X	X	X	X
7. Right to employ foreign nationals	X	X	X	X	X	X
8. Deduction from taxable income in the year reinvestment was made of a certain percentage of the amount of undistributed profits transferred to capital stock for procurement of machinery and equipment and other expansion	X[6]	X[7]	X[6]	X[7]	X[7]	X[8]

Table 7 (continued)

Incentives	EXPORT FIRMS		NON EXPORTING FIRMS		AGRICULTURAL FIRMS	
	Pioneer	Non Pioneer	Pioneer	Non Pioneer	Pioneer	Non Pioneer
9. Anti-dumping protection	X	X	X	X	X	X
10. Protection from government competition	X	X	X	X	X	X
11. Deduction of labor training expenses from taxable income equivalent to one half of said expenses but not more than 10 per cent of direct labor wage	X	X	X	X	X	X
12. Tax credit on domestic capital equipment.[8]	X	X	X	X	X	X
13. Exemption from all NIRC taxes except income tax [9]	X		X		X	
14. Post-Operative Tariff Protection	X		X		X	
15. Tax exemptions on importation of breeding stocks and genetic materials					X	X
16. Deduction of research and development expenses from taxable income.[11]					X	X
17. Additional deduction from taxable income of freight and transportation expenses. [12]					X	X

Table 7 (continued)

Incentives	EXPORT FIRMS		NON EXPORTING FIRMS		AGRICULTURAL FIRMS	
	Pioneer	Non Pioneer	Pioneer	Non Pioneer	Pioneer	Non Pioneer
18. Tax credits equivalent to sales, compensating and specific taxes and duties on supplies, raw materials and semi-manucatured products used in the manufacture, processing or production of export products	X	X				
19. Additional tax deduction of direct labor cost and local raw material cost.[13]	X	X				
20. Exemption from the percentage tax on sales for articles sold to another export producer or export trader	X	X				
21. Exemption from export tax impost and fees.	X	X				
22. Additonal deduction from taxable income of 1 per cent of incremental export sales provided a brand new name is used.	X	X				
23. Preference in the grant of government loans	X	X	X	X	X	X

Table 7 (continued)

Incentives	EXPORT FIRMS		NON EXPORTING FIRMS		AGRICULTURAL FIRMS	
	Pioneer	Non Pioneer	Pioneer	Non Pioneer	Pioneer	Non Pioneer
C. Incentives to Export Traders						
1. Exemption from any export tax, fee or impost						
2. Exemption from specific and sales taxes on products exported by it.						
3. Tax credit equivalent to the amount of specific and sales taxes on registered export products bought by it from export producer and subsequently exported.						
4. Additional deduction of 20 per cent of its total export sales						
5. Additional deduction of 1 per cent of its total export sales provided it extends financial assistance to a registered export producer [14]						
6. Deduction from taxable income of expenses for establishing and maintaining offices abroad.						
D. Incentives to Service Exporter						
1. Deduction from taxable income of 50 per cent of its total export fees.						
2. Tax credit equivalent to the amount of specific, compensating and sales taxes and duties paid by it on raw materials and supplies used in producing the picture or recording that is exported.						

FOOTNOTES:

1. For the purpose of this provision, organizational and pre-operating expenses shall include expenses for pre-investment studies, start-up costs, costs of initial recruitment and training and similar expenses.

2. Fixed assets may be depreciated to the extent of not more than twice as fast as normal rate of depreciation if expected life is 10 years or less; if expected life is more than 10 years, asset may be depreciated over any number of years between five years and expected life.

3. 50 per cent exemption on tariff duties and compensating tax on imported capital equipment.

4. Full exemption on tariff duties and compensation tax on imported capital equipment.

5. This provision is granted provided the registered enterprise establish its plant in an area that the BOI designates as necessary for the proper dispersal of industry.

6. 50 per cent , 75 per cent or 100 per cent deduction from taxable income of expension reinvestment.

7. 25 per cent, 37 1/2 per cent or 50 per cent deduction from taxable income of expansion reinvestment.

8. The tax credit is equal to the tariff duties and compensating tax that would have been paid on the capital equipment had it been imported.

9. 100 per cent exemption for the first five years; 75 per cent exemption for the six through the eight years; 50 per cent exemption for the ninth and tenth year; 20 per cent exemption for the eleventh and twelfth years; and 10 per cent exemption for the thirteenth through the fifteenth years.

10. The additional deduction should not exceed 25 per cent of the research and development expenses and 25 per cent of management training expenses of Philippine nationals.

11. The additional deduction should not exceed 30 per cent of freight and transportation expenses. The deduction is allowed only if the enterprise is established in an area that the BOI designates as preferred for agricultural development and which the BOI finds deficient in transport facilities.

12. Such additional deduction should not exceed 25 per cent of its total export revenue.

13. The financial assistance should not be less than 20 per cent of the total export sales of the trader for this provision to hold

14. Provided that the tax credit shall accrue to the registered export producer only after the other export producer or export trader has actually or constructively exported said products;

15. Provided that the shares representing the contribution of the said financial institutions shall be offered for public sale to Philippine nationals through all the members of a registered Philippine stock exchange within a reasonable period after such acquisition.

Source: Omnibus Investments Code, 16th of January 1981.

Table 8
Philippine Tax Revenues, 1957-1978
(in million of pesos)

	CY 1978	CY 1977	CY 1976	FY 1975	FY 1974	FY 1973	FY 1972	FY 1971
Revenue from Taxation	20157.7	17534.1	14404.8	13572.0	10093.7	6239.9	4366.6	3824.2
Excise Taxes	2207.5	2912.0	2562.0	1475.6	986.7	552.1	473.5	561.6
On Imports	304.7	86.2	49.5	20.0	26.2	3.5	-	1.0
On Exports	-	-	-	-	-	-	-	-
On Domestic Products	1902.9	2825.8	2512.5	1088.2	960.5	548.2	-	556.8
Fines and Penalties	-	-	-	-	-	-	-	0.4
Miscellaneous	-	-	-	-	-	-	-	-
License and Business Tax	4570.2	3186.0	2835.2	2425.1	1988.8	1138.1	1095.3	892.0
On Business	4560.7	3177.7	2826.5	2418.0	1981.9	1110.5	-	882.5
On Other than Business	4.9	4.8	4.7	4.6	2.5	16.6	-	7.9
Fines and Penalties	1.3	1.5	2.9	2.5	1.7	1.8	-	0.9
Miscellaneous	3.3	2.1	1.1	-	2.6	10.7	-	0.7
Income Taxes	3422.0	4445.0	3706.4	3044.6	2717.4	1688.5	1028.1	846.4
On Business	2538.4	1387.4	1852.4	1823.5	1850.9	1039.4	-	340.2
On Other than Business	883.4	3056.6	1852.1	1219.5	865.3	646.9	-	504.7
Fines and Penalties	0.2	-	1.9	1.5	1.2	2.3	-	1.4
Import Duties	5412.0	5412.0	4265.1	3934.0	2776.3	1438.0	1086.7	862.3
On Imports	5403.2	5403.2	4249.2	-	2770.1	1431.4	-	861.2
Fines and Penalties	5.2	5.2	13.6	-	4.9	5.9	-	0.7
Miscellaneous	3.6	3.6	2.3	-	1.3	0.7	-	0.4
Other Taxes	4546.0	1579.0	1036.1	2692.7	1624.5	1423.2	683.3	661.9
Other Income:	16870.2	12491.8	10452.1	1859.0	1182.7	1227.8	733.0	522.0
Earnings and Other Credits	2517.1	2530.3	2231.1	1139.9	920.8	844.2	-	441.3
Miscellaneous Income	13.1	4.7	594.4	598.8	252.8	138.8	254.8	77.8
Sales of Assets	-		9.6	6.9	4.1	18.2	1.9	1.6
Income from Public Enterprises	-	-	1.2	4.7	5.0	226.6	17.2	1.0
Borrowings	14010.8	9825.7	7580.0	-	-	-	-	-
Extraordinary Income	329.2	131.1	31.1	108.7	-	-	-	-
Transfers from Other Funds	-	-	4.7	32.3	-	-	-	-
Other Income	-	-	-	-	-	-	459.1	-
GRAND TOTAL	3702.9	30025.9	24356.9	15463.2	11276.4	7467.7	5099.1	4346.4

CY - Calendar Year January 1 to December 31 of the same period.

FY - Fiscal Year July 1 of the previous period to June 31 of the present period.

Table 8 (continued)

	FY 1970	FY 1969	FY 1968	FY 1967	FY 1966	FY 1965	FY 1964	FY 1963
Revenue from Taxation	2725.6	2494.6	2161.9	1915.9	1554.5	1523.7	1560.9	-
Excise Taxes	445.5	392.5	341.3	378.3	323.3	320.1	341.4	-
On Imports	2.3	1.5	3.4	5.3	-	-	-	-
On Exports	-	-	-	-	-	-	-	-
On Domestic Products	443.2	390.3	334.6	373.4	-	-	-	-
Fines and Penalties	-	-	-	-	-	-	-	-
Miscellaneous	-	-	3.2	-	-	-	-	-
License and Business Tax	738.7	711.4	667.3	538.0	414.1	371.8	380.7	-
On Business	729.4	704.3	663.7	528.9	-	-	-	-
On Other than Business	7.7	6.3	2.9	8.4	-	-	-	-
Fines and Penalties	0.9	0.7	0.6	0.5	-	-	-	-
Miscellaneous	0.7	0.8	-	-	-	-	-	-
Income Taxes	709.4	648.5	495.1	401.8	378.9	379.8	341.6	-
On Business	437.8	416.7	337.9	271.9	-	-	-	-
On Other than Business	269.8	230.1	156.0	128.9	-	-	-	-
Fines and Penalties	1.7	1.6	1.2	1.0	-	-	-	-
Import Duties	613.1	584.1	546.5	497.2	356.0	380.4	419.3	-
On Imports	611.4	579.7	544.2	494.5	-	-	-	-
Fines and Penalties	1.3	4.0	1.9	2.3	-	-	-	-
Miscellaneous	0.4	0.4	0.3	0.3	-	-	-	-
Other Taxes	218.9	157.7	111.7	100.1	82.2	71.6	77.9	-
Other Income:	441.3	452.0	491.0	364.5	299.5	446.0	378.0	-
Earnings and Other Credits	361.5	344.5	309.2	504.0	221.0	205.9	-1.6	-
Miscellaneous Income	71.8	75.2	56.6	61.2	47.5	53.1	181.6	-
Sales of Assets	0.7	0.7	0.9	0.1	1.0	35.0	1.4	-
Income from Public Enterprises	7.3	1.2	0.1	0.1	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-
Extraordinary Income	-	-	-	-	-	-	-	-
Transfers from Other Funds	-	-	-	-	-	-	-	-
Other Income	-	30.3	127.1	139.0	30.0	-	-	-
GRAND TOTAL	3166.9	2946.5	2652.8	2419.4	1854.0	1969.0	1939.0	-

Table 9
Functional Expenditure of the National Government

	FY 1979	FY 1978	FY 1977	FY 1976	FY 1975	FY 1974	FY 1973	FY 1972
ECONOMIC DEVELOPMENT/SERVICES	12,500	9,758	7,788	8,392	8,931	6,447	3,583	1,889
Agriculture & Natural Resources	2,248	1,925	1,522	1,107	940	4,193.6	1,295	540
Commerce and Industry	592	1,084	592	511	104	114	1,293	793
Transportation and Communication	-	-	-	-	-	-	-	-
Trade and Tourism	320	325	187	255	1,078	392	-	-
Utilities and Infrastructures	9,340	6,424	5,487	5,452	5,262	408	-	-
Other Economic Development	-	-	-	-	1,546	1,338	917	464
SOCIAL DEVELOPMENT/SERVICES	9,014	6,647	4,574	4,196	3,551	3,073	2,042	1,766
Education	4,366	3,415	2,721	2,513	2,104	1,710	1,558	1,404
Public Health and Medicare	1,227	1,301	1,044	958	712	473	358	282
Social Security, Labor and Welfare	528	651	539	468	499	347	126	81
Housing and Community Amenities	2,709	684	270	255	236	156	-	-
Other Social Development	184	596	-	-	-	386	-	-
NATIONAL DEFENSE	4,690	3,497	4,325	4,004	3,541	1,940	1,211	800
National Defense	-	-	-	-	-	-	-	-
Maintenance of Peace and Order	-	-	-	-	-	-	-	-
GENERAL GOVERNMENT/GENERAL PUBLIC SERVICES	3,509	4,880	3,877	3,600	2,044	1,447	1,250	725
General Administration	1,796	3,226	2,452	2,193	1,354	1,578	-	-
Contribution to International Organization and Arrangements	90	217	113	127	137	25	-	-
Public Order and Safety	1,213	840	390	702	420	295	-	-
General Research	114	163	140	106	133	55	-	-
General Government	-	-	-	-	-	-	842	373
Legislative Services	-	-	-	-	-	-	91	93
Administration of Justice	-	-	-	-	-	-	111	105
Pension and Gratuities	-	-	-	-	-	-	206	150
Other General Public Services	296	434	376	468	-	493	-	-
DEBT SERVICE	2,947	2,324	2,034	1,108	980	609	489	327
TOTAL EXPENDITURE	32,660	27,106	22,598	21,298	19,049	12,517	8,574	5,588

Table 9 (continued)

	FY 1971	FY 1970	FY 1969	FY 1968	FY 1967	FY 1966	FY 1965	FY 1964
ECONOMIC DEVELOPMENT/SERVICES	1,277	1,283	1,132	923	749	557	603	637
Agriculture & Natural Resources	301	260	302	111	95	138	143	212
Commerce and Industry	121	96	80	9	13	32	39	67
Transportation and Communication	642	686	-	214	176	244	221	303
Trade and Tourism	-	-	560	-	-	-	-	
Utilities and Infrastructures	-	-	239	-	-	-	-	
Other Economic Development	214	241	-	106	72	70	91	54
SOCIAL DEVELOPMENT/SERVICES	1,539	1,412	1,214	1,047	953	873	725	733
Education	1,244	1,132	987	873	800	713	591	582
Public Health and Medicare	226	226	182	143	124	128	114	116
Social Security, Labor and Welfare	-	-	-	-	-	-	-	
Housing and Community Amenities	-	-	-	-	-	-	-	
Other Social Development	-	-	-	-	-	-	-	
NATIONAL DEFENSE	747	615	385	459	380	324	268	298
National Defense	543	458	-	345	290	249	207	230
Maintenance of Peace and Order	204	157	-	114	90	75	61	68
GENERAL GOVERNMENT/GENERAL PUBLIC SERVICES	508	499	932	356	320	320	294	243
General Administration	-	-	-	-	-	-	-	-
Contribution to International Organization and Arrangements	-	-	-	-	-	-	-	-
Public Order and Safety	-	-	-	-	-	-	-	-
General Research	-	-	-	-	-	-	-	-
General Government	317	323	-	232	208	204	187	153
Legislative Services	81	86	-	52	45	54	54	52
Administration of Justice	86	68	-	54	51	48	34	34
Pension and Gratuities	24	22.3	-	18	16	13	18	4
Other General Public Services	-	-	-	-	-	-	-	-
DEBT SERVICE	357	244	286	160	129	154	140	157
TOTAL EXPENDITURE	4429	4,054	4,000	2,945	2,531	2,228	2,035	2068

Table 9 (continued)

	FY 1963	FY 1962	FY 1961	FY 1960	FY 1959	FY 1958	FY 1957
ECONOMIC DEVELOPMENT/SERVICES	652	420	496	383	306	413	439
Agriculture & Natural Resources	242	105	128	111	95	138	143
Commerce and Industry	55	54	53	9	13	32	39
Transportation and Communication	303	227	265	214	176	244	221
Trade and Tourism	-	-	-	-	-	-	-
Utilities and Infrastructures	-	-	-	-	-	-	-
Other Economic Development	47	34	51	49	23.1	-	31
SOCIAL DEVELOPMENT/SERVICES	645	568	520	416	367	369	343
Education	480	433	377	321	275	267	258
Public Health and Medicare	123	110	106	75	76	87	73
Social Security, Labor and Welfare	42	24	37	19	16	15	13
Housing and Community Amenities	-	-	-	-	-	-	-
Other Social Development	-	-	-	-	-	-	-
NATIONAL DEFENSE	273	206	197	190	183	177	157
National Defense	208	160	156	153	152	149	138
Maintenance of Peace and Order	64	46	40	37	31	27	19
GENERAL GOVERNMENT/GENERAL PUBLIC SERVICES	189	165	130	129	101	95	85
General Administration	-	-	-	-	-	-	-
Contribution to International Organization and Arrangements	-	-	-	-	-	-	-
Public Order and Safety	-	-	-	-	-	-	-
General Research	-	-	-	-	-	-	-
General Government	112	112	85	79	70	69	58
Legislative Services	40	29	17	17	13	10	9
Administration of Justice	26	22	19	15	15	13	13
Pension and Gratuities	10	2.4	9.5	18	4	3	5
Other General Public Services	-	-	-	-	-	-	-
DEBT SERVICE	94	110	70	78	54	68	92
TOTAL EXPENDITURE	1853	1,469	1,413	1,196	1,011	1,122	1,116

Table 10
Total Government Expenditure and Gross National Product
(in million pesos)

Year	Total Govenrment Expenditure	GNP (at current prices)	Expenditure GNP
1979	32,660	220,935	14.78
1978	27,106	181,093	14.96
1977	22,598	154,280	14.64
1976	21,298	132,712	16.04
1975	19,049	114,265	16.67
1974	12,517	99,948	12.52
1973	8,574	71,616	11.97
1972	5,588	55,526	10.06
1971	4,429	49,599	8.93
1970	4,054	41,751	9.70
1969	4,000	35,012	11.42
1968	2,945	31,791	9.26
1967	2,531	28,734	8.81
1966	2,228	25,745	8.65
1965	2,035	23,382	8.70
1964	2,068	21,383	9.67
1963	1,853	19,793	9.36
1962	1,469	17,030	8.62
1961	1,413	15,161	9.31
1960	1,196	13,833	8.64
1959	1,011	12,943	7.81
1958	1,122	11,905	9.42
1957	1,116	11,232	9.93

Table 11
Public Debt by Status and Level of Government

Year	Total	INTERNAL DEBT					EXTERNAL DEBT			
				Government Corporations						
		National Government	Local Government	Guaranteed	Non-Guaranteed	Monetary Institutions	National Government	Local Government	Government Corporations	Monetary Institutions
1955	1,356	867	44	261	9	-	134	-	41	-
1956	1,594	1,015	37	301	43	-	129	-	49	20
1957	1,865	1,189	29	352	77	-	146	-	47	16
1958	2,030	1,295	44	390	85	-	136	-	57	12
1959	2,369	1,463	38	417	140	-	129	-	148	33
1960	2,489	1,454	27	588	69	-	164	-	142	46
1961	3,165	1,730	23	590	267	-	123	-	239	193
1962	3,281	1,789	23	593	342	-	131	-	230	182
1963	3,359	1,801	21	641	393	-	119	-	245	140
1964	3,554	1,859	4	657	406	-	137	-	278	193
1965	5,056	1,987	72	730	391	-	517	-	706	652
1966	5,572	2,234	88	851	388	-	684	-	652	676
1967	6,695	2,669	89	1056	387	-	599	-	597	1298
1968	7,741	2,826	110	1276	385	-	850		570	1454
1969	9,159	3,701	121	1658	387	-	953	6	607	1727
1970	12,795	4,019	107	1722	423	919	1735	7	779	3084
1971	14,197	4,287	104	1674	498	1140	2186	5	1227	3072
1972	17,444	5,608	106	1731	534	1731	2629	1	1678	3435
1973	20,815	7,294	96	1559	446	3138	3147	1	1614	3523
1974	27,110	9,877	108	776	257	5612	3679	1	1615	5187
1975	37,033	11,416	128	1116	287	7893	5300	-	2698	8195
1976	48,120	13,176	166	1712	265	8075	6062	2	8561	10101
1977	56,126	15,262	220	2286	286	9310	8534	2	12520	7706
1978	72,101	17,839	280	2965	367	11020	12231	2	15921	11478
1979	84,051	19,070	288	3084.9	485	13531	13979	2	19728	13884

Source: Central Bank Annual Report and Statistical Bulletin 1979 and 1976.

Foreign exchange rates for external debt:

1955 up to	1964	$1.00 = P 2.00	1970	$1.00 = P 5.86	1975	$1.00 = P 7.25
	1965	$1.00 = P 3.90	1971	$1.00 = P 6.43	1976	$1.00 = P 7.44
	1966	$1.00 = P 3.89	1972	$1.00 = P 6.61	1977	$1.00 = P 7.4
	1967	$1.00 = P 3.91	1973	$1.00 = P 6.76	1978	$1.00 = P 7.38
	1968	$1.00 = P 3.91	1974	$1.00 = P 6.78	1979	$1.00 = P 7.37
	1969	$1.00 = P 3.92				

Source for foreign exchange = NEDA-EPRS.

Table 12
Public Debt by Maturity
(in million pesos)

Year		INTERNAL DEBT						EXTERNAL DEBT					
		Long-term	% [a/]	Middle-term	%	Short-term	%	Long-term	%	Middle-term	%	Short-term	%
1955	1,356	1156	85.2	6	0.4	19	1.0	28	2	97	7	50	4
1956	1,594	1181	74.1	186	12.0	29	2.0	33	2	103	7	62	4
1957	1,856	967	52.0	325	18.0	355	19.0	59	3	80	4	70	4
1958	2,030	941	46.4	425	21.0	458	23.0	75	4	56	3	75	4
1959	2,369	933	40.0	349	15.0	776	33.0	111	5	97	4	103	4
1960	2,489	1251	50.0	221	9.0	666	27.0	101	4	95	4	155	6
1961	3,165	1811	57.2	177	6.0	621	20.0	94	3	356	11	106	3
1962	3,281	1825	56.0	337	10.0	576	18.0	110	3	228	7	205	6
1963	3,359	1702	51.0	531	16.0	623	19.0	118	4	232	7	153	5
1964	3,554	1332	38.0	663	19.0	950	27.0	127	4	240	7	242	7
1965	5,056	1455	29.0	506	10.0	1219	24.0	554	11	521	10	801	16
1966	5,572	1682	30.0	341	0.1	1538	28.0	401	7	410	7	1200	22
1967	6,695	2419	36.0	979	15.0	802	12.0	425	6	513	8	1557	23
1968	7,471	2483	33.0	1128	15.0	986	13.0	476	6	1164	16	1234	17
1969	9,159	2795	30.0	1937	21.0	1134	12.0	612	7	984	11	1697	19
1970	12,795	2810	22.0	1570	12.0	2811	22.0	1159	9	1912	15	2533	20
1971	14,197	2752	19.0	2898	20.0	2057	15.0	1273	9	2317	16	2900	20
1972	17,444	2628	15.0	4046	23.0	3027	17.0	2176	12	2632	15	2935	17
1973	20,185	3342	16.0	5380	26.0	3812	18.0	3174	15	2980	14	2127	10
1974	27,110	4656	17.0	7514	23.0	4459	16.0	4212	16	2752	10	3517	13
1975	37,033	5878	16.0	8440	23.0	6221	17.0	6344	17	3579	10	6271	17
1976	48,120	7614	16.0	10867	23.0	4921	10.0	15135	31	3573	7	6013	13
1977	56,126	9694	17.0	12031	21.0	5640	10.0	19155	34	4060	7	5546	10
1978	72,101	12769	18.0	11869	17.0	7832	11.0	25004	35	7581	11	7046	10
1979	84,051	8672	10.0	14750	18.0	13036	16.0	29584	35	9550	11	8459	10

Source: Central Bank Annual Report and Statistical Report.

[a/] figures represent the percentage to total debt for the year.